

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 833 - SB 1118

March 8, 2017

SUMMARY OF BILL: Decreases, from seven percent to five percent, the state sales and use tax on the retail sale of diapers, feminine hygiene products, and over-the-counter drugs otherwise subject to the sales tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$14,543,100

Decrease Local Revenue – Net Impact – \$509,900

Assumptions:

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(p), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- It is assumed that no portion of revenue derived from 1.5 percent sales tax rate on the retail sale of diapers, feminine hygiene products, and over-the-counter drugs shall be distributed to local government, even after the tax rate decrease to 5.0 percent pursuant to this bill.
- There are approximately 242,500 children in Tennessee under the age of three, who are estimated to use an average of 6 diapers per day over the 3-year period, for a total of 531,075,000 diapers per year (242,500 x 6 x 365).
- The average cost per diaper is estimated to be \$0.20.
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of diapers is estimated to be \$2,026,519 [(531,075,000 x \$0.20 x 2.0%) – (531,075,000 x \$0.20 x 2.0% x 4.603%)].

- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of diapers is estimated to be \$97,781 ($531,075,000 \times \$0.20 \times 2.0\% \times 4.603\%$).
- There are approximately 1,750,417 women in Tennessee between the age of 15 and 55.
- Assuming that each woman spends approximately \$120 each year on feminine hygiene products, total sales of such products are estimated to be \$210,050,040 ($1,750,417 \times \120).
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of feminine hygiene products is estimated to be \$4,007,629 [$(\$210,050,040 \times 2.0\%) - (\$210,050,040 \times 2.0\% \times 4.603\%)$].
- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of feminine hygiene products is estimated to be \$193,372 ($\$210,050,040 \times 2.0\% \times 4.603\%$).
- According to Nielsen Company, total 2014 national over-the-counter sales of medicine are estimated to be \$30,824,000,000.
- Based on United States Bureau of the Census data, Tennessee population is estimated to be approximately 2.05 percent of the national population.
- Total over-the-counter sales of medicine in Tennessee are estimated to be \$631,892,000 ($\$30,824,000,000 \times 2.05\%$).
- Seventy five percent of such sales, or \$473,919,000, is estimated to be subject to the sales tax under current law.
- The recurring decrease in state sales tax collections resulting from a two percent tax rate decrease on the retail sale of over-the-counter drugs is estimated to be \$9,042,090 [$(\$473,919,000 \times 2.0\%) - (\$473,919,000 \times 2.0\% \times 4.603\%)$].
- The recurring decrease in local sales tax collections resulting from a two percent tax rate decrease on the retail sale of over-the-counter medicine is estimated to be \$436,290 ($\$473,919,000 \times 2.0\% \times 4.603\%$).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Total tax savings are estimated to be \$15,803,681 ($\$2,026,519 + \$97,781 + \$4,007,629 + \$193,372 + \$9,042,090 + \$436,290$).
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent [$(5.5\% / 7.0\%) \times 4.603\%$].
- The net recurring increase in sales tax revenue for the state is estimated to be \$533,122 [$(\$15,803,681 \times 50.0\% \times 7.0\%) - (\$15,803,681 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The total recurring increase in sales tax revenue for the local government is estimated to be \$217,553 [$(\$15,803,681 \times 50.0\% \times 2.5\%) + (\$15,803,681 \times 50.0\% \times 7.0\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$14,543,116 [$(\$2,026,519 + \$4,007,629 + \$9,042,090) - \$533,122$].
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$509,890 [$(\$97,781 + \$193,372 + \$436,290) - \$217,553$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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